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GREB INDUSTRIES LIMITED

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GREB INDUSTRIES LIMITED / ANNUAL REPORT 1970



ANNUAL MEETING

The annual meeting of shareholders will be held at the head office of the Company, 51 Ardelt Avenue, Kitchener, Ontario, at 2:00 p.m. E.D.T. on April 29, 1971.

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officers

Harry D. Greb,
President

Charles E. Greb,
Executive Vice-President

John D. Campbell,
Vice-President, Marketing

Ross E. Hahn,
Vice-President, Manufacturing

Arnold C. Austen, C.A.,
Vice-President, Finance

Arthur C. Greb,
Secretary

George A. Klugman,
Treasurer

directors

Arnold C. Austen, C.A.

John D. Campbell

Arthur C. Greb

Charles E. Greb

Harry D. Greb

Ross E. Hahn

Roland A. Harris, O.B.E.

John B. Hawson

David C. H. Stanley

HEAD OFFICE

51 Ardelt Avenue,
Kitchener, Ontario

TRANSFER AGENT & REGISTRAR

Canada Permanent Trust Company

AUDITORS

Thorne, Gunn, Helliwell & Christenson

highlights of the year

	<u>1970</u>	<u>1969</u>
OPERATING RESULTS		
<i>Fiscal Years Ended</i>	October 31	November 1
Net income	\$ 476,525	\$ 464,766
Per share — Class C and common67	.65
Dividends declared — Class C and common	144,470	291,941
Per share (i)24	.48

FINANCIAL POSITION

<i>At year ends</i>		
Working Capital	\$4,591,618	\$4,363,573
Current ratio	1.57	1.55
Shareholders' equity — Class C and common	5,083,355	4,801,050
Per share	7.54	7.12

OTHER DATA

<i>At year ends</i>		
Number of shares outstanding — Class C and common	673,835	673,835

- (i) Stock dividends declared on the Class C shares are equivalent to the cash dividends declared on the common shares after consideration of the 15% tax paid by the Company on undistributed income.

to our shareholders



The year 1970 was a very difficult one for Canadian business generally because of the uncertain economic environment and a cautious consumer attitude. We believe your company's performance, under the circumstances, was encouraging with both sales and profits being marginally ahead of the previous year.

Net sales for our fiscal year ended October 31, 1970 were 3.4% above the previous year. This sales comparison, excluding Collins Safety Shoes Limited, a company acquired in June 1969, amounted to an increase of 1/10 of 1%. Our Greb footwear division sales for the year decreased slightly from the previous year – to a lesser extent than the Canadian shoe industry generally – whereas our Bauer athletic products division sales were significantly above the previous year.

Your company's net income after taxes of \$476,525 for the 1970 fiscal year amounted to an increase of \$11,759 or 2.5% above the previous year and net income before corporation taxes at \$1,017,625 was \$66,993 or 7% ahead. The 1970 figures reflect the additional cost sustained on our U.S. business resulting from freeing the Canadian dollar from its fixed parity with the U.S. dollar during the year.

Net earnings per Class C and common share for 1970 were 67¢, after provision for preference share dividends, compared with 65¢ in the previous year.

As previously reported, action was taken during the year to strengthen the financial position of your company with the result that our working capital at year end had improved by \$228,000.

Net investment in plant, machinery and equipment during the year was limited to \$282,000 compared with \$731,000 in the previous year. Of this 1970 total, \$71,000 was invested in buildings, \$145,000 in manufacturing machinery, dies and lasts and \$66,000 in transportation, warehouse and office equipment. The major portion of the buildings expenditure covered construction of a 6,000 square foot addition to our warehouse and shipping facility at North Tonawanda, N.Y. (a suburb of Buffalo). This warehouse services our expanding Bauer volume in the U.S.A. market.

We were pleased with progress on our cost control program during the year which in respect of overhead expenditures resulted in a reduction to a level below that of the previous year.

As indicated previously in our fourth quarter report, net income for the final quarter of our fiscal year was disappointing due to the higher than normal inventory mark-downs on a line of ladies style footwear and to certain material consumption variances. We have taken steps to minimize these problem areas in the current year.

Elsewhere in this report you will find a more detailed review of the year and comments on significant developments in our major operating areas.

To our many customers, employees and shareholders, your management expresses its thanks for their continued loyalty and support.

A handwritten signature in dark ink, appearing to read 'Harry D. Greb', with a stylized flourish at the end.

Kitchener, Ontario
March 15, 1971

Harry D. Greb
President

greb industries limited and

CONSOLIDATED STATEMENT OF INCOME

Year ended October 31, 1970

(with comparative figures for 1969)

	1970	1969
Net sales	\$21,187,833	\$20,483,117
Income before undernoted items	1,872,402	1,768,422
Aggregate direct remuneration of directors and senior officers (as defined by The Corporations Act of Ontario)	188,770	185,760
Depreciation	412,227	388,577
Interest on long term debt	229,382	146,576
Cost of Series C debenture issue		51,875
Other expenses – not regular operating costs	24,398	45,002
	854,777	817,790
Income before income taxes	1,017,625	950,632
Income taxes		
Current	552,793	448,401
Deferred	(11,693)	37,465
	541,100	485,866
Net income for the year	\$ 476,525	\$ 464,766
Net income per share, after provision for preferred dividends	67¢	65¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended October 31, 1970

(with comparative figures for 1969)

	1970	1969
Balance at beginning of year	\$ 2,804,550	\$ 2,745,632
Net income for the year	476,525	464,766
	3,281,075	3,210,398
Deduct		
Cash dividends		
Class A preference shares	28,000	28,000
Class C shares	5,000	30,000
Common shares	41,720	83,441
	74,720	141,441
Stock dividends of 488,750 (892,500 in 1969) Class B shares on Class C shares	97,750	178,500
	172,470	319,941
Tax paid on undistributed income	21,750	31,500
Excess of cost of shares of subsidiary company acquired during the year over net book value at date of acquisition		54,407
	194,220	405,848
Balance at end of year	\$ 3,086,855	\$ 2,804,550

subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended October 31, 1970

(with comparative figures for 1969)

	<u>1970</u>	<u>1969</u>
SOURCE OF FUNDS		
Operations		
Net income for the year	\$ 476,525	\$ 464,766
Items not involving current funds		
Depreciation	412,227	388,577
Deferred income taxes	(11,693)	37,465
	<u>877,059</u>	<u>890,808</u>
Sale of fixed assets	8,723	11,654
Increase in insurance policy loans	13,424	
Issue of 9% debentures, Series C		1,500,000
Special refundable tax		4,846
	<u>899,206</u>	<u>2,407,308</u>
APPLICATION OF FUNDS		
Additions to fixed assets	290,431	742,707
Dividends	172,470	319,941
Principal on long term debt, reclassified under current liabilities ..	179,000	179,000
Tax paid on undistributed income	21,750	31,500
Increase in life insurance, cash surrender value	7,510	7,889
Investment in subsidiary company, less net current assets acquired		93,227
	<u>671,161</u>	<u>1,374,264</u>
INCREASE IN WORKING CAPITAL		
	228,045	1,033,044
Working capital at beginning of year	4,363,573	3,330,529
Working capital at end of year	<u>\$ 4,591,618</u>	<u>\$ 4,363,573</u>

greb industries limited and

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET — OCTOBER 31, 1970

(with comparative figures at November 1, 1969)

ASSETS	<u>1970</u>	<u>1969</u>
CURRENT ASSETS		
Accounts receivable	\$ 6,671,330	\$ 5,921,225
Inventories		
Raw materials, at the lower of cost and replacement cost	1,670,839	1,760,782
Work in process, at the lower of cost and net realizable value ..	564,876	591,327
Finished goods, at the lower of cost and net realizable value	3,642,721	3,907,548
Prepaid expenses	116,127	148,007
	<u>12,665,893</u>	<u>12,328,889</u>
OTHER ASSETS		
Life insurance, cash surrender value, less policy loans of		
\$158,263 (\$144,839 in 1969)	22,420	28,334
Investment in subsidiary company, at cost (note 1)	51,055	51,055
	<u>73,475</u>	<u>79,389</u>
FIXED ASSETS, at cost		
Land	194,932	194,932
Buildings	2,951,827	2,880,848
Machinery and equipment	2,694,772	2,590,781
Dies, lasts and patterns	856,700	773,076
	<u>6,698,231</u>	<u>6,439,637</u>
Less accumulated depreciation	2,844,529	2,455,416
	<u>3,853,702</u>	<u>3,984,221</u>
	<u>\$16,593,070</u>	<u>\$16,392,499</u>

Approved by the Board

Director

Director

subsidiary companies

LIABILITIES	<u>1970</u>	<u>1969</u>
CURRENT LIABILITIES		
Bank advances, against which receivables and inventories have been pledged	\$ 5,995,458	\$ 5,662,213
Accounts payable and accrued liabilities	1,622,081	1,924,664
Income and other taxes payable	241,806	127,579
Dividends payable	35,930	71,860
Principal due within one year on long term debt	179,000	179,000
	<u>8,074,275</u>	<u>7,965,316</u>
 LONG TERM DEBT (note 2)	 2,530,000	 2,709,000
 DEFERRED INCOME TAXES	 345,440	 357,133
 SHAREHOLDERS' EQUITY		
Capital stock (note 3)	2,556,500	2,556,500
Retained earnings	3,086,855	2,804,550
	<u>5,643,355</u>	<u>5,361,050</u>
 COMMITMENTS (note 4)		
	<u><u>\$16,593,070</u></u>	<u><u>\$16,392,499</u></u>

Greb industries limited and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended October 31, 1970

1. SUBSIDIARY COMPANIES AND BASIS OF CONSOLIDATION

The subsidiary companies consolidated in these financial statements are Greb Shoes Limited, Greb Realty Limited, The Western Shoe Company Limited, The Canada Skate Manufacturing Company Limited, Bauer Canadian Skate, Inc., The Tebbutt Shoe and Leather Company (Limited) and Collins Safety Shoes Limited.

The accounts of Bauer Canadian Skate, Inc. have been converted into Canadian currency on the following basis: current assets, liabilities and operating accounts except depreciation, at a rate of exchange of \$1.02 (\$1.0725 in 1969) and fixed assets and depreciation, at par of exchange.

As in prior years, the accounts of Metro Marine Limited, a controlled company, are not consolidated because its operations are dissimilar. The company's proportion of the profit of Metro Marine Limited for the year ended December 31, 1969 amounted to \$3,169 and the accumulated net profit since acquisition, which amounted to \$16,485, is not reflected in the company's financial statements.

2. LONG TERM DEBT

	1970	1969
6¾% Secured sinking fund debentures, Series A, maturing November 15, 1981	\$ 752,000	\$ 814,000
7% Secured sinking fund debentures, Series B, maturing November 15, 1981	532,000	574,000
9% Secured sinking fund debentures, Series C, maturing May 15, 1989	1,425,000	1,500,000
	<u>2,709,000</u>	<u>2,888,000</u>
Less principal included in current liabilities	179,000	179,000
	<u>\$ 2,530,000</u>	<u>\$ 2,709,000</u>

Under provisions of the debenture trust deed and supplementary debenture trust deeds, the company is obligated to set aside amounts sufficient to retire out of sinking fund moneys, \$62,000 principal amount of Series A debentures and \$42,000 principal amount of Series B debentures, on November 15 in each year up to and including 1980 and \$75,000 principal amount of Series C

debentures on May 15 in each year up to and including 1988.

Under provisions of the debenture trust deeds for Series A and Series B, the company may redeem the whole or any part of the Series A or Series B debentures outstanding up to November 15, 1981, at amounts varying from 109.75% to 100.00% of the principal amount redeemed.

Under provisions of the debenture trust deeds for Series C, the company may redeem the whole or any part of the Series C debentures outstanding on or after May 15, 1974 and up to May 15, 1989, at amounts varying from 107.00% to 100.00% of the principal amount redeemed.

The debenture trust deeds contain certain restrictions relating to the payment of dividends.

3. CAPITAL STOCK

Authorized

31,200 Class A preference shares, par value \$100 per share, issuable in series		
6,259,630 Class B non-cumulative redeemable shares, par value 20¢ per share (after giving effect to the issue and redemption of 616,250 shares during the year)		
716,500 Class C participating shares without par value convertible into an equal number of common shares		
1,533,500 Common shares without par value		

	1970	1969
Issued		
5,600 5% Cumulative redeemable Class A preference shares, first series	\$ 560,000	\$ 560,000
500,000 Class C shares	487,162	487,162
173,835 Common shares	1,509,338	1,509,338
	<u>\$ 2,556,500</u>	<u>\$ 2,556,500</u>

4. COMMITMENTS

The company has undertaken to contribute past service pension costs of \$27,124 per annum for ten years, \$8,556 for a subsequent two years, and \$2,177 in the final year, which amounts will be charged against income as paid.

AUDITORS' REPORT

To the Shareholders of Greb Industries Limited

We have examined the consolidated balance sheet of Greb Industries Limited and subsidiary companies as at October 31, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
December 29, 1970

Thorne, Gumm, Helliwell & Christenson
Chartered Accountants

subsidiary companies

9 YEAR CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Figures in thousands except per share data

Years ended	1970	1969	1968	1967	1966	1965	1964	1963	1962
OPERATING RESULTS									
Net sales	\$21,188	\$20,483	\$18,795	\$17,363	\$16,193	\$11,230	\$ 9,913	\$ 8,643	\$ 6,303
Income before undernoted items	1,684	1,583	1,859	1,727	1,833	1,181	1,096	784	446
Depreciation	412	389	315	266	223	118	83	71	112
Interest on long term debt	229	146	112	116	122	81	85	22	17
Non regular operating expenses (income)	25	97	36	45	(21)	42	3	78	69
Income taxes	541	486	729	656	766	462	474	285	111
Net income	477	465	667	644	743	478	451	328	137
Total dividends declared	172	320	320	318	233	46	46	27	2

FINANCIAL POSITION AT YEAR END

Working capital	\$ 4,592	\$ 4,364	\$ 3,331	\$ 3,801	\$ 4,060	\$ 2,958	\$ 1,648	\$ 1,568	\$ 307
Current ratio	1.57	1.55	1.45	1.60	1.82	1.62	1.70	1.83	1.14
Fixed assets (net)	3,854	3,984	3,603	2,773	2,169	1,379	907	570	536
Long term debt	2,530	2,709	1,388	1,492	1,596	1,700	1,154	1,154	258
Shareholders' equity — Class C and common	5,083	4,801	4,742	4,509	4,117	2,172	1,144	740	438
Shares outstanding — Class C and common	674	674	674	674	674	539	505	505	505

PER SHARE IN DOLLARS — CLASS C AND COMMON

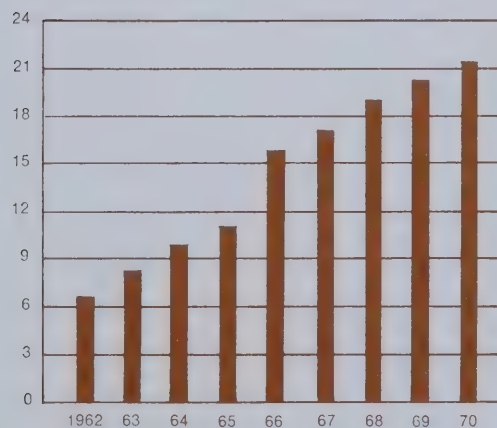
Net income	\$.67	\$.65	\$.95	\$.91	\$ 1.06	\$.85	\$.85	\$.65	\$.27
Dividends declared	.24	.48	.48	.48	.33¾	.05	.05	.05	
Shareholders' equity	7.54	7.12	7.04	6.69	6.11	4.03	2.27	1.47	.86

The above 9 year review includes -

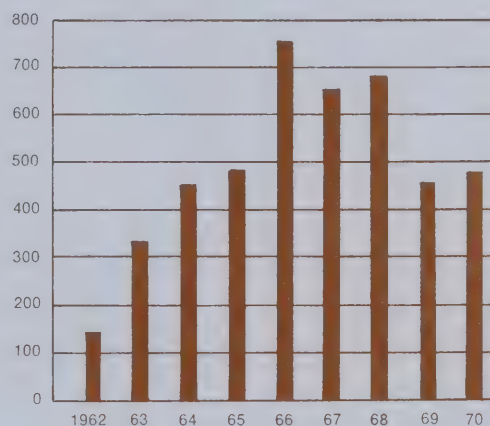
The following companies from date of acquisition - The Western Shoe Company Limited, The Canada Skate Manufacturing Company Limited and Bauer Canadian Skate, Inc. as of October 29, 1965, The Tebbutt Shoe and Leather Company (Limited) as of October 31, 1966, and Collins Safety Shoes Limited as of June 18, 1969.

Adjustment of shares outstanding to reflect a capital stock subdivision and reclassification into Class C and common on February 18, 1966.

Net Sales
Millions of Dollars



Net Income
Thousands of Dollars



operating progress

During 1970 the 1,200 employees in the Greb organization, located in seven plants in three cities (Kitchener, Winnipeg and Trois-Rivières) and at warehouses in the same locations (plus Vancouver and North Tonawanda, N.Y.) produced just under two million pairs of footwear and skates.

Hush Puppies

"Hush Puppies", the Company's principal product group, enjoyed sales of over a million pairs in 1970, as they have in each of the six previous years. The year also saw a continuation of the trend toward greater variety of colour and styling within the "Hush Puppies" group; this applies equally to men's shoes, women's "flats" and women's "stacked heels". Nevertheless, those styles which are still close to the original concept of "Hush Puppies" — namely a brushed pigskin upper of traditional lines with a Nuron crepe sole — continue to attract a substantial volume of sales and provide a nucleus around which other styling innovations are added.

A comment about fashion in general is pertinent to an appreciation of "Hush Puppies" developments. "Fashion" is one of the most obvious realities of present-day marketing in Canada. Greb shares, with most other industries which feel the full impact of the fashion phenomenon, their mixed attitudes towards it:

"Fashion" has introduced greater interest, excitement and choice at the consumer buying level, resulting in increased sales; but at the manufacturing level it means increased costs for designing, materials, short runs, inventory and obsolescence. "Hush Puppies", it is fair to claim, anticipated the fashion swing in Canada by helping to establish the trend toward casual living a decade ago, and they have participated in the expansion of this trend ever since. Fashion has dictated more styles, more colours. Thus it has been desirable in the past two years to establish as the "Hush Puppies" selling theme: "Isn't it nice to have more than one pair?"

The advertising program of "Hush Puppies" for Spring 1971 — conceived and planned during 1970 — will represent a departure from the specific-style promotion of '69 and '70 and to some extent a return to the fundamental concept and image. It will begin the end of April with a full-colour full-page advertisement in 24 metropolitan newspapers, to be followed by a series of three advertisements (about one-third page in size) in May and June, also using colour. The entire campaign is built around the visual appeal of the Basset-hound symbol of "Hush Puppies" and the idea of "barefoot comfort", as expressed in the theme: "Barefoot comfort is a litter of Hush Puppies". An integral part of the advertising is a national adult colouring contest.



The Bauer skate division recorded another year of impressive sales growth in both Canada and the United States, and improved its position in Europe and other countries. One of the most important contributing factors has been the agreement signed with the National Hockey League whereby Bauer became "the official skate of the National Hockey League". Prior to this NHL agreement, however, Bauer conducted a program of close liaison with the NHL teams, and especially the trainers and players, so that during 1970 the number of NHL players using Bauer skates rose significantly to over fifty per cent. A third factor which gained recognition for Bauer during 1970 was the introduction of team-matched coloured skates to the NHL; the St. Louis "Blues" became the first team to wear them. These facts were communicated to sporting goods retailers in North America through many media.

The Bauer trade name also gained stature during 1970 through the introduction of colour to women's popular-priced figure skates and an equally colourful line of sport-jogging shoes. A prominent feature of Bauer sales promotion during the year was a co-venture with a national food merchandising company and involving Bauer retailers.

PAGANOS

"Paganos" is a new name among the Greb products which was unveiled to the retail shoe trade in the Autumn of 1970. Four basic styles in a total of ten models make up this line of men's dress shoes. They offer the consumer contemporary Continental flair and Greb comfort at retail prices ranging from \$16.95 to \$19.95; they are made from fine leathers and have unimold soles. "Paganos" are a carefully planned move by Greb to enter a sector of the men's dress shoe market which has been increasingly dominated by imported footwear. Although consumer response cannot be measured until after "Paganos" are presented for retail sale in Spring '71, initial response from retailers has reinforced our optimism for this new line. Production started in our Trois-Rivières plant in December.

andré

The "André" process is a technological advance in shoemaking recently developed and patented by Chaussures André of France, one of Europe's largest footwear manufacturers and retailers. With it, complete one-piece shoe uppers, identical in every detail to the finest leather shoes, can be produced electronically

from vinyl without most of the operations which account for a high proportion of the costs in traditional shoe manufacture. Exclusive Canadian rights to the "André" process were acquired by Greb toward the end of 1970, and initial production has been scheduled for Spring '71. Immediate prospects for the process suggest dramatic cost reductions for shoes of elaborate design and fine workmanship; future possibilities are a challenge to the imagination; both are supported by indications that the market for vinyl shoes for men and women will expand at an accelerating rate, particularly among young adults. This process can be applied to many different types and styles of existing Greb footwear, as well as providing an entry into new lines of footwear.



